

H1 2021 Romanian real estate market



Putting
people first.

AVISON
YOUNG

Our global presence

Legal entities

- Canada

United States

Mexico

South Korea

South Africa

United Kingdom

Israel
- France

Czech Republic

Hungary

Poland

Romania

Republic of Ireland

Russia

Planned entities 2021

- Austria
- Portugal
- Spain

About us

Avison Young creates real economic, social and environmental value as a global real estate advisor, powered by people. As a private company, our clients collaborate with an empowered partner who is invested in their success. Our integrated talent realizes the full potential of real estate by using global intelligence platforms that provide clients with insights and advantage.

5,000

real estate
professionals

16

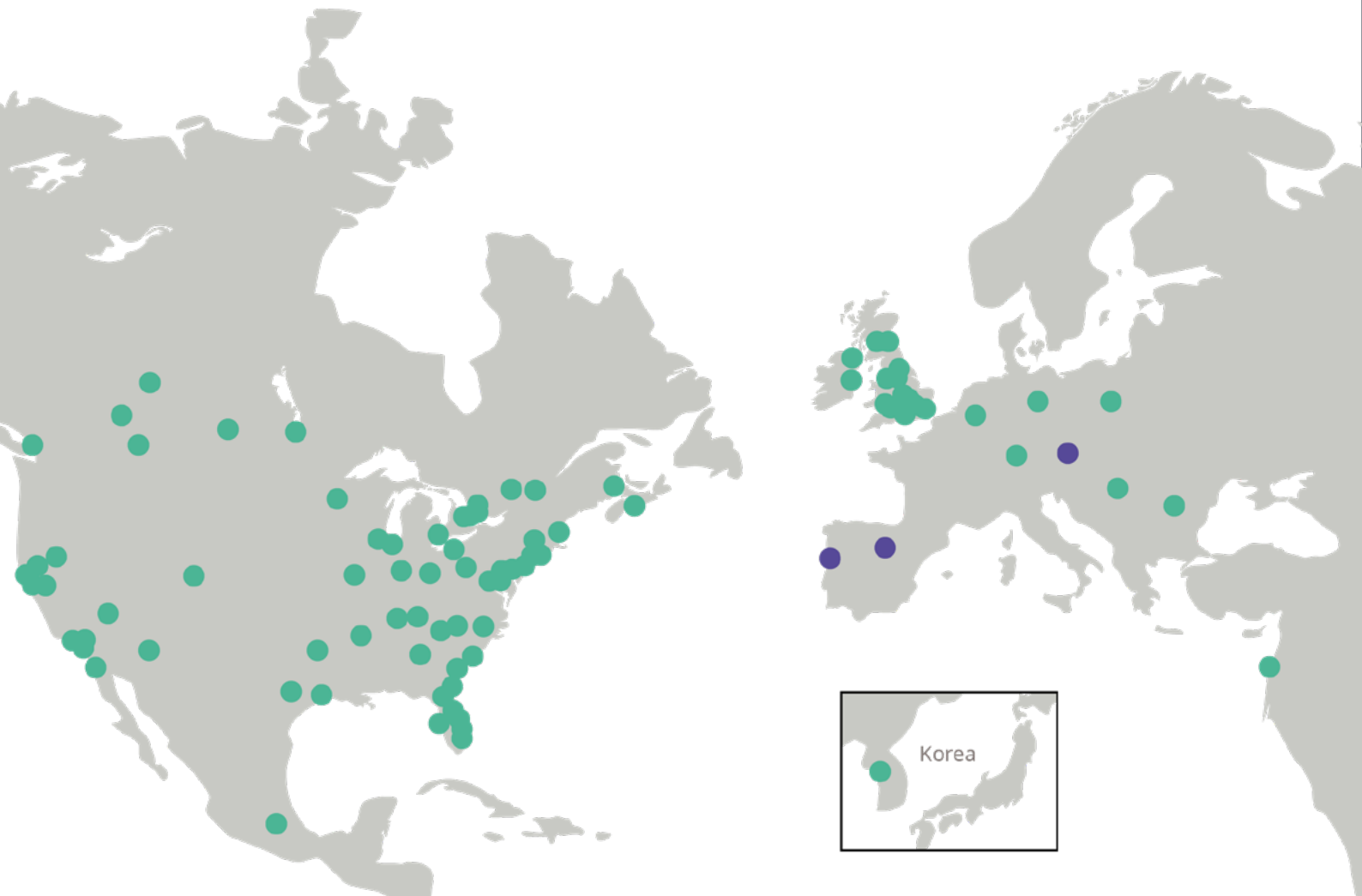
countries
and growing...

100+

global
offices

1978

founding
year



Market Sections

- 01 Real estate investment market
- 02 Bucharest office market
- 03 Romanian industrial market

01

Real estate investment market



Investment market

Investment volume +60%

In the first six months of 2021 the real estate investment volume recorded in Romania sums approx. 316 million euros. Compared with the similar period of 2020, the total investment value is higher by ~ 60%.

The office sector attracted the largest share, with deals involving office properties representing 61% of the total investment value, followed by the industrial sector with 18%. Investors' appetite for acquiring retail income-generating properties improved y-o-y, with transactions involving retail projects representing 9% of the total investment value registered throughout Romania.



€316m

H1 2021 investment volume



Office

61%



Industrial

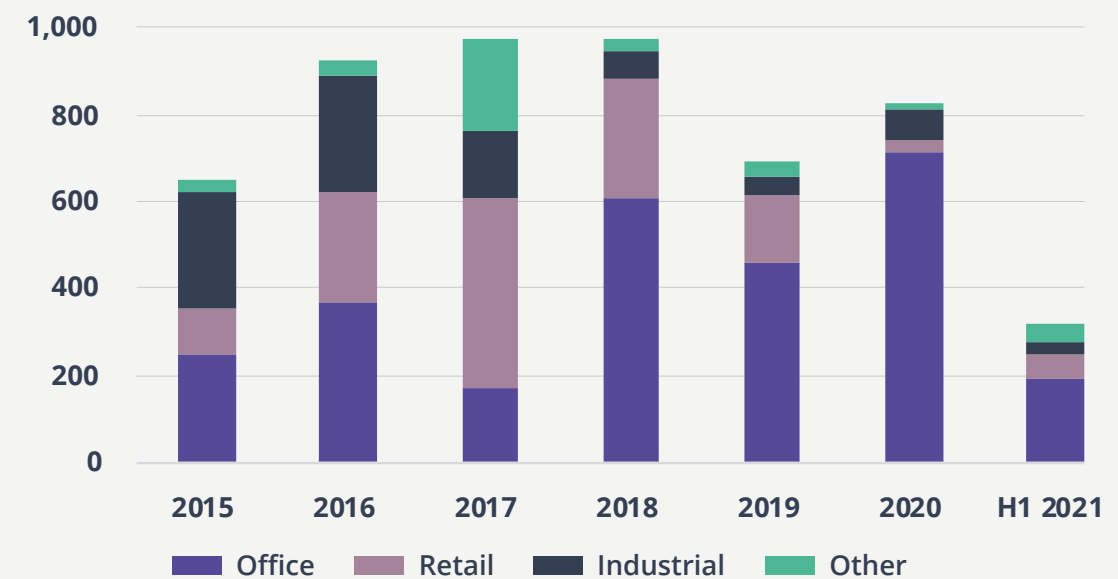
18%



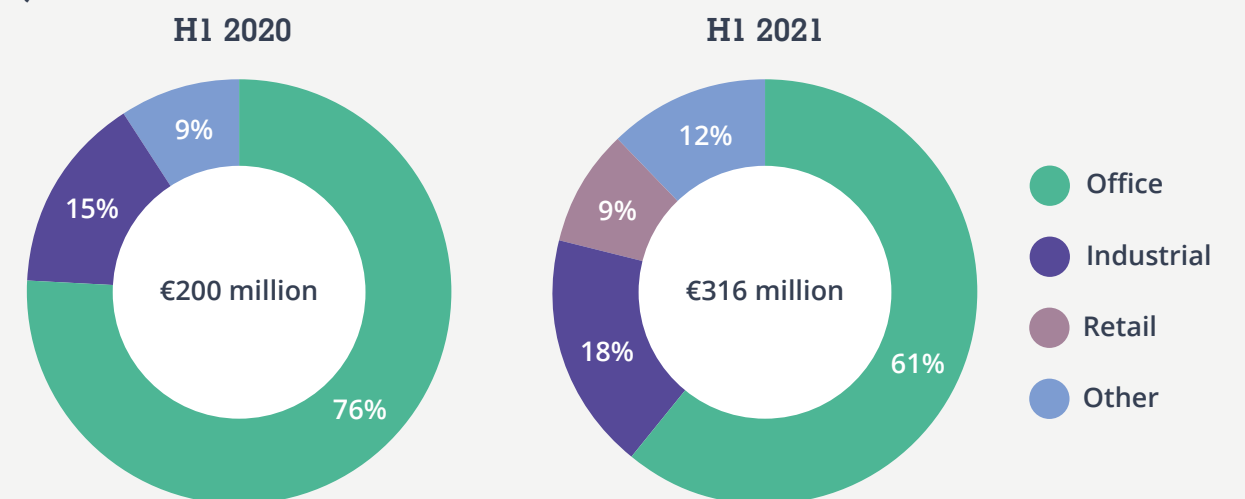
Retail

9%

Real estate investment value by sector 2015 – H1 2021
(million euros)



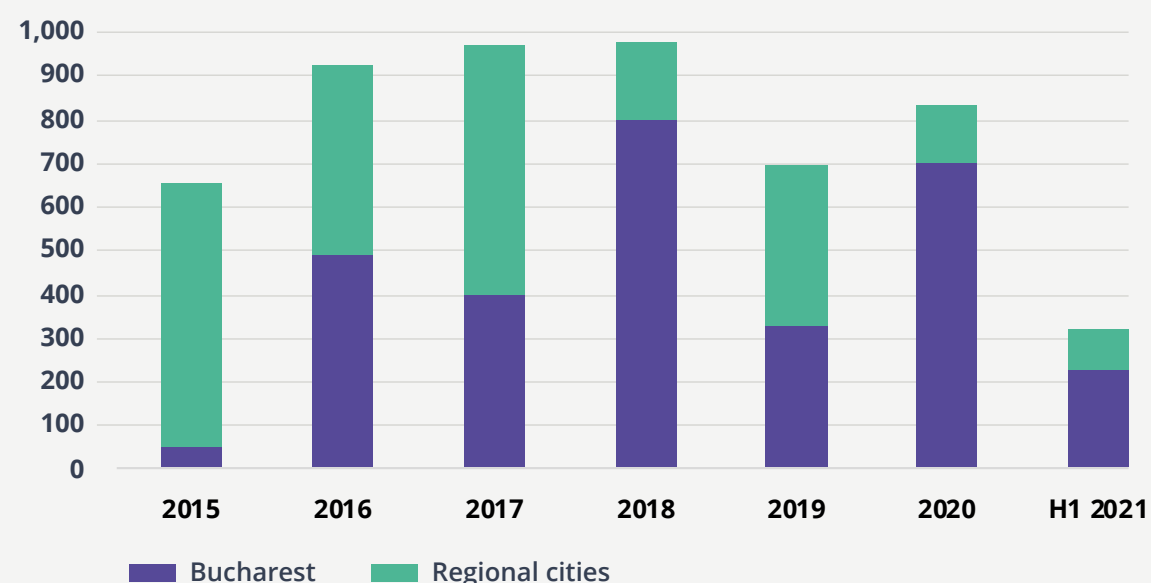
Real estate investment value by sector H1 2020 vs. H1 2021
(%)



The value of investment deals with industrial properties higher by 87% y-o-y

Bucharest was again the most active region in Romania for real estate investment transactions, with 72% of the investment value. Outside the capital city regions such as Timișoara, Arad, Oradea and Iași attracted 28% of the total investment value, which represents an amount of approx. 89 million euros.

Real estate investment value Bucharest vs. regional cities 2015 – H1 2021 (million euro)



Transactional performance

In H1 2021 the most important investment deal in terms of price was performed by the Austrian investor S IMMO AG who purchased two fully let buildings of the Campus 6 business park from the Swedish developer Skanska. The total transaction value was 97 million euros and with this acquisition S IMMO increased its office portfolio in Romania to over 73,000 sq. m of gross leasable area.



Largest investment deal in terms of price closed in the Central West office submarket of Bucharest

Other important transactions involving office properties were Uniqa REM buying The Light One office building from the local developer River Development and Immofinanz acquiring Bucharest Financial Plaza from a subsidiary of the Austrian Erste Group Bank.



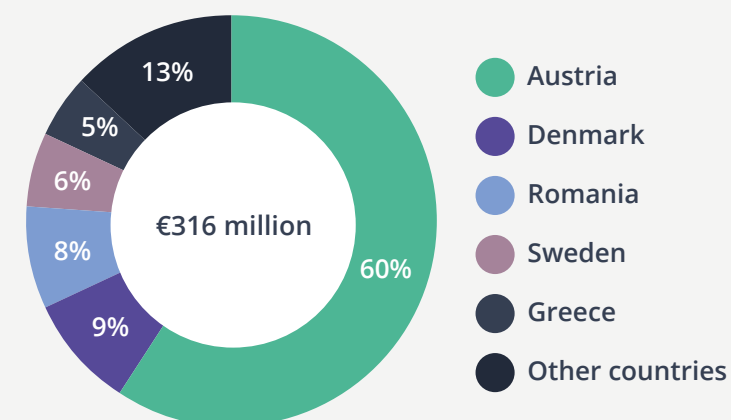
Austrian investors were the most active buyers, focusing solely on office products

Industrial properties were traded mostly outside Bucharest. In Iași, city located in the Northern Eastern part of Romania, the local developer Tester Group sold the industrial and logistics park Solo to the Swedish private equity fund Oresa. With this transaction the Swedish investor has officially entered the Romanian real estate market. Globalworth increased its industrial and logistics portfolio by acquiring with ~ 18 million euros two properties located in Arad and Oradea, while the Dutch investor CTP continued its portfolio expansion in Romania and purchased four logistics properties from Catalyst Capital for the amount of 23 million euros.



Foreign investors were the most active buyers, while domestic players' appetite for investing in real estate assets represented ~8% of the total investment value recorded in H1 2021

Investment volume by the source of capital



Prime yields

Office
7.25%

Industrial
7.5%

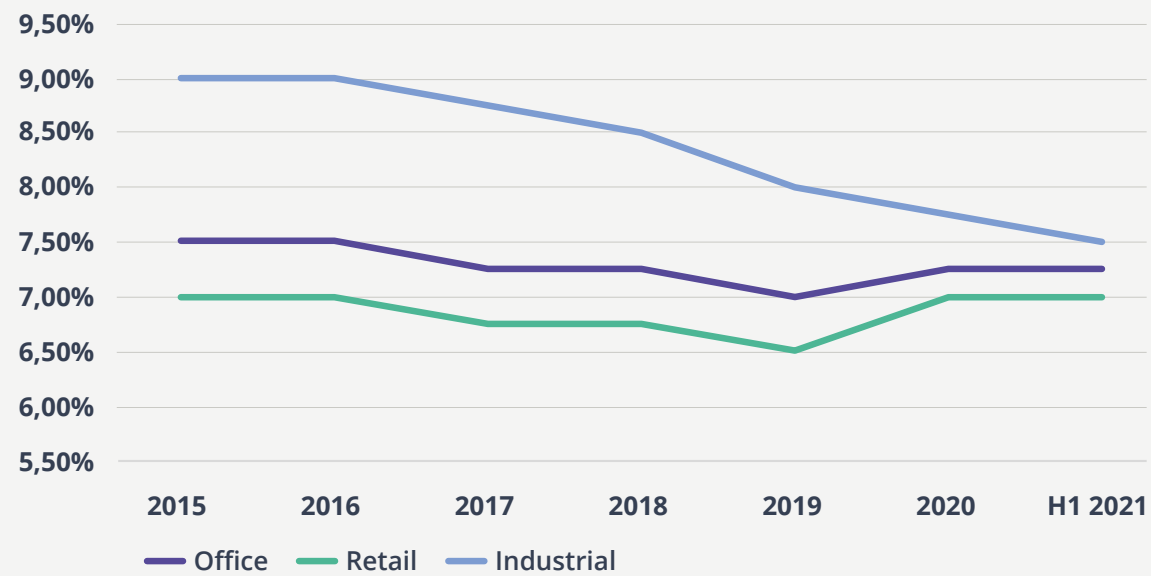
Retail
7%

Prime yields

competitive returns

In H1 2021 there were no variations regarding the evolution of prime yields for offices and overall Romania continues to be a CEE destination that offers competitive returns. Prime office properties achieve yields of around 7.25%. For prime industrial projects the yield slightly compressed from 7.75% to 7.5%, as investors' interest for these type of products has become stronger. Prime yields for prime shopping centers are around 7%.

Prime yields evolution
(%)



Forecast

prime yields to remain stable

Real estate investment volume for the second half of 2021 is projected to be at least equal the value of what was recorded throughout the first half of the year. Office investment deals will continue to have the highest impact on 2021's investment volume. On the other hand, the transactional pipeline reveals that the contribution of the industrial & logistics sector to the overall investment activity might be significant this year. This will be supported mainly by investors' plans to further expand their local portfolios in order to accommodate retailers' expansion requirements, as consumer trends towards e-commerce have generated the need for more warehouse space. For H2 2021 no major changes are expected regarding the yields for prime real estate assets located in Romania.



Major investment deals H1 2021

City	Sector	Property	Purchaser	Vendor	Price (€m)
Bucharest	Office	Campus 6.2 & 6.3	S IMMO AG	Skanska	97
Bucharest	Office	The Light One	Uniqa REM	River Development	55*
Bucharest	Office	Bucharest Financial Plaza	Immofinanz	Erste Group	36
Iași	Industrial	Solo Iași	Oresa	Tester Group	15
Regional cities**	Industrial	Logistics park	CTP	Catalyst Capital	23
Arad & Oradea	Industrial	IPW Arad & Oradea	Globalworth	Global Vision	18*
Arad	Retail	Retail park	N/A	Mitiska & Square 7	20

*Estimated

**Arad, Timișoara, Caransebeș

Source: Avison Young

02



Bucharest
office market

Bucharest office market

Supply

Throughout the first half of 2021 six office buildings have been finalized in Bucharest, having a total GLA of ~ 80,000 sq. m. Most of the newly completed office supply is in Barbu Vacarescu – Floreasca submarket, followed by Central West and CBD. The largest office buildings completed in H1 2021 are: One Floreasca Tower, Campus 6.2 and Țiriac Tower.

New office supply is expected to exceed 200,000 sq. m in H2 2021, with Central West submarket attracting 34%. In terms of occupancy, almost two thirds of the offices scheduled for delivery by year's end are already pre-leased.

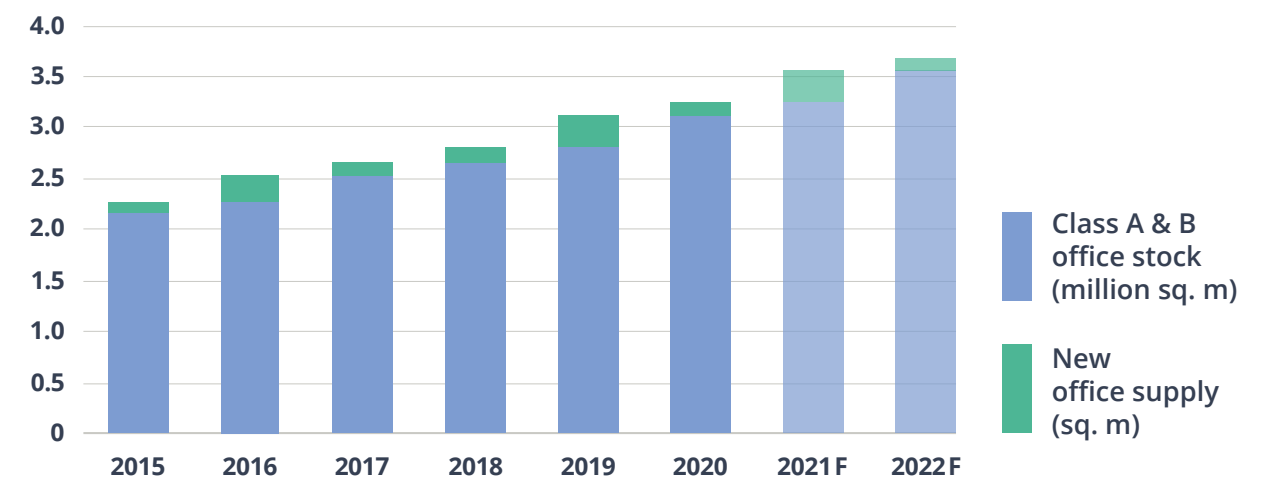


6
office buildings
delivered in H1 2021

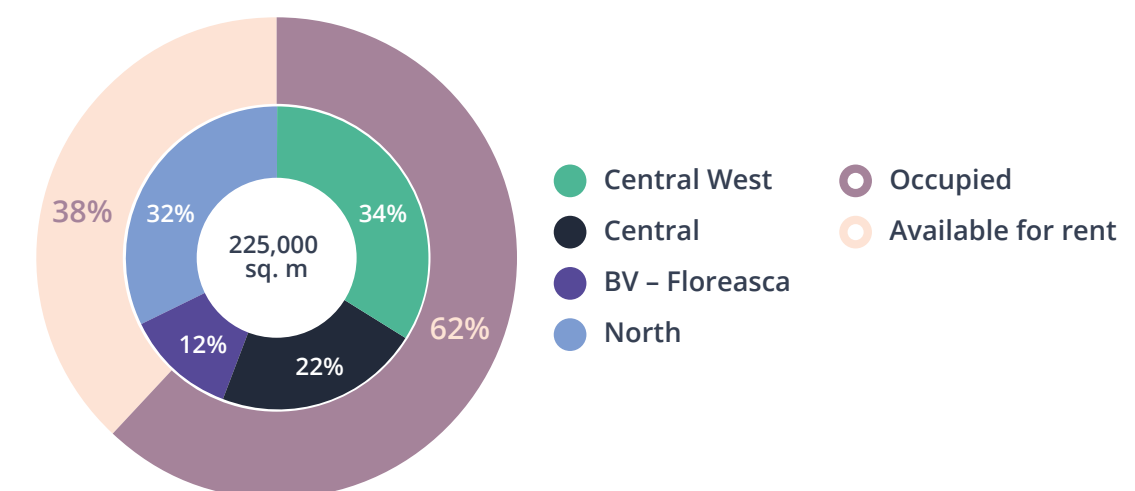


2/3
pre-leased
of the offices scheduled
for delivery by end of 2021

Bucharest modern office stock evolution 2015 – 2022F
(million sq. m)



New office supply by submarket H2 2021
(%)



Largest office projects forecasted to be completed in H2 2021

Developer	Office project	GLA (sq. m)	Submarket	Delivery
Portland Trust	J8 Office Park A&B	48,000	North	Q3 2021
One United	One Cotroceni Park I	45,000	Central West	Q4 2021
Forte Partners	U Center Campus I	30,000	Central	Q3 2021
Globalworth	Globalworth Square	28,000	BV-Floreasca	Q3 2021
Speedwell	Miro Offices	23,000	North	Q4 2021

Demand

+17%

Office leasing activity throughout H1 2021 amounts over 130,000 sq. m and has increased by 17% compared with the same period of 2020. Net take-up - relocations and new business operations - represents 61%.

Office occupiers' appetite for opening new business operations in Bucharest has increased by 80% y-o-y, reaching the highest level recorded since the second half of 2019.



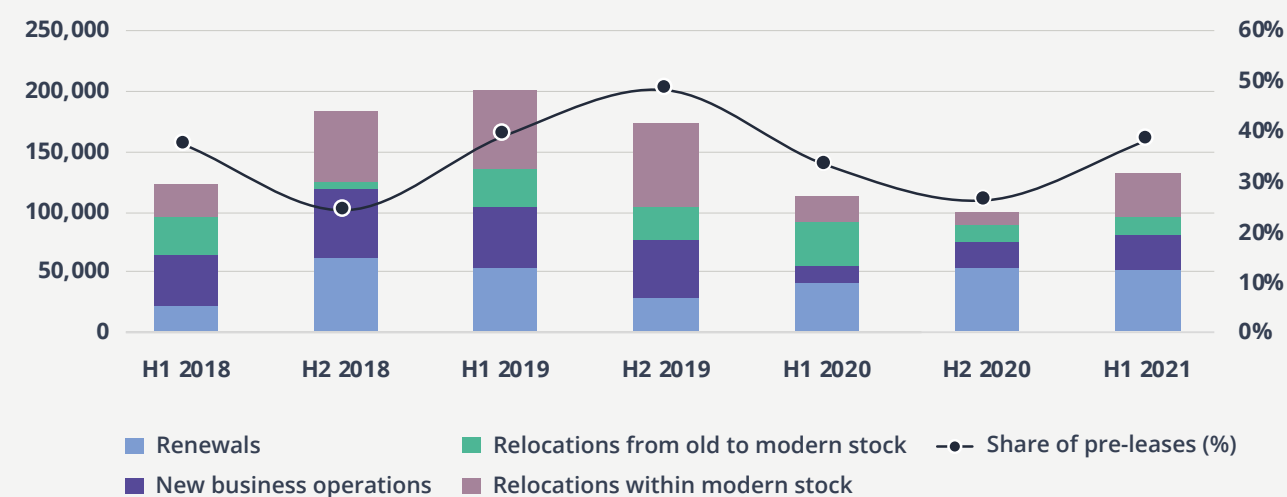
New business operations has increased by 80% y-o-y - highest level since H2 2019

The most active tenants were Professional Services and Computers & Hi-Tech companies, while Medical & Pharma businesses leased four times more space compared with what was registered throughout H1 2020.

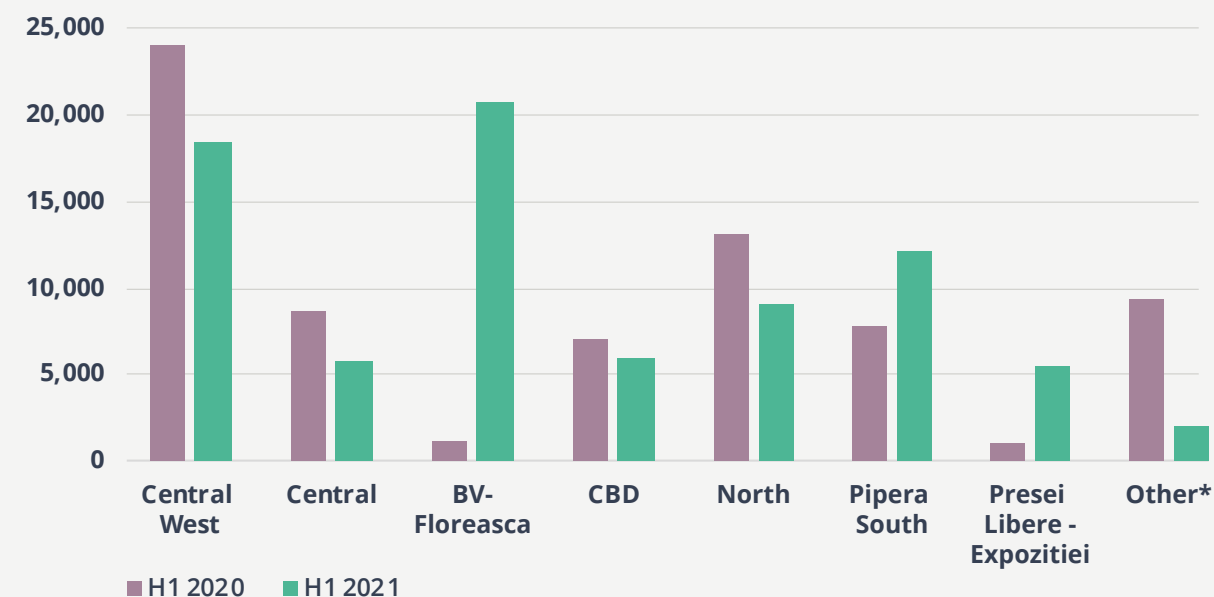


Medical & Pharma leased 4x more space compared to H1 2020

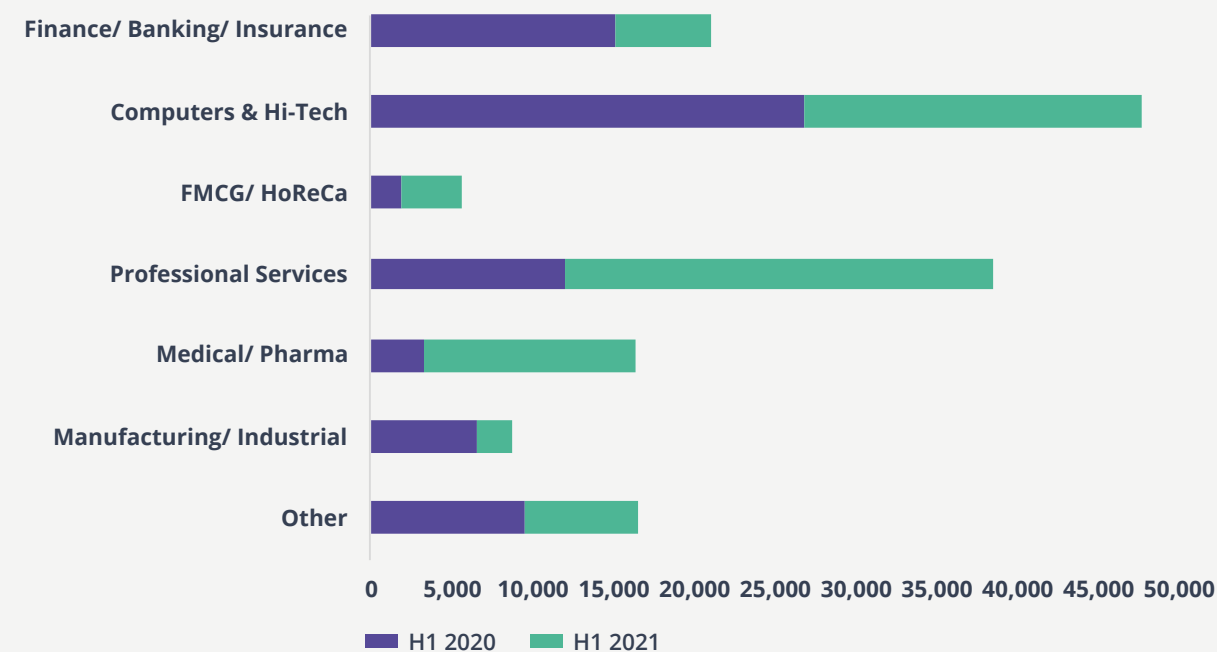
Office leasing activity evolution H1 2018 – H1 2021 (sq. m)



Net take-up by submarket H1 2020 vs. H1 2021 (sq. m)



Net take-up by business sector H1 2020 vs. H1 2021 (sq. m)



Vacancy 30bps

At the end of Q2 2021 general office vacancy rate stands at 10.5%, being higher by 30 bps compared with Q1 2021. Barbu Vacarescu – Floreasca has a vacancy rate around 7%, while in the Central West submarket office vacancy rate is close to 12%. In the CBD the vacancy rate continues to stand close to 5%.

Rents stable

No changes have been recorded regarding the headline rents for class A office spaces located in Bucharest. Prime headline rent continues to stand at 19 euros per sq. m per month. Depending on the lease term and the size of the rented area, net effective rents are lower by 15 – 25%.

Forecast appetite for new business operations

Overall, in 2021 new office supply could exceed 300,000 sq. m, boosting the modern office stock up to 3.5 million sq. m. However, next year's development pipeline is currently lower by 60%, with only 115,000 sq. m of offices planned for completion.

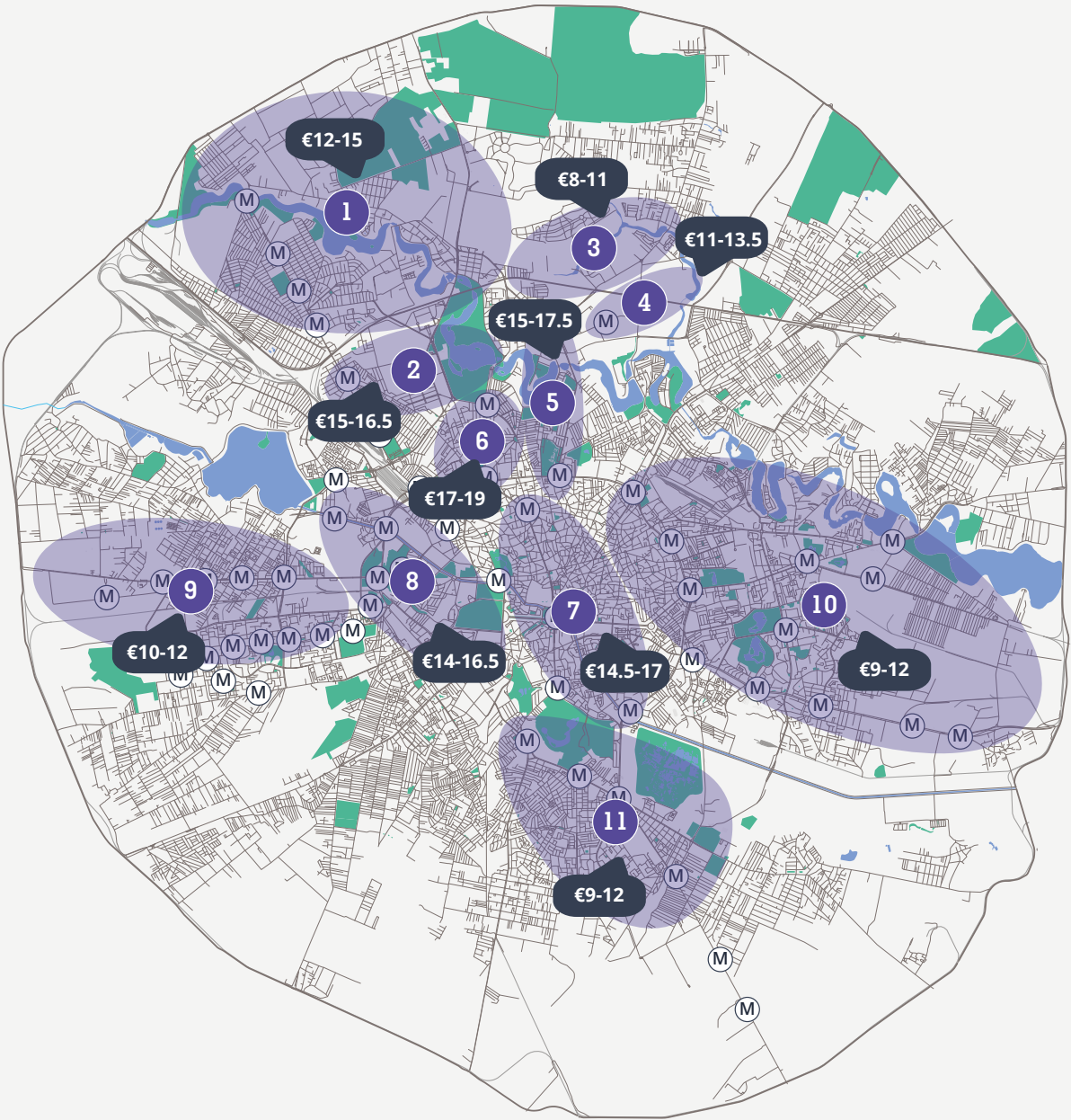
While most developers are seeking to secure anchor tenants in order to start construction works, development activity is forecasted to evolve also around existing office buildings that need improvements in terms of structural works and overall facilities (e.g. green spaces, bicycle parking, shower and restrooms etc.).

Net take-up has increased by 70% compared with what was recorded in the last six months of 2020, being boosted mainly by tenants' drive to open new business operations. Going forward, this trend is expected to continue, given that Bucharest offers among the most competitive costs in the EU in terms of office occupancy costs and overall living expenses*.


*Source: 2021 Numbeo cost of living ranking




Headline rents for class A office space by submarket



Legend



Headline Rent Class A (€/sq. m/m)



Metro Station

1

North-Baneasa

2

Expozitiei

3

North-Pipera

4

South-Pipera

5

Floreasca-BV

6

CBD

7

Central

8

Central West

9

West

10

East

11

South

Source: Avison Young Research

03

Romanian industrial market

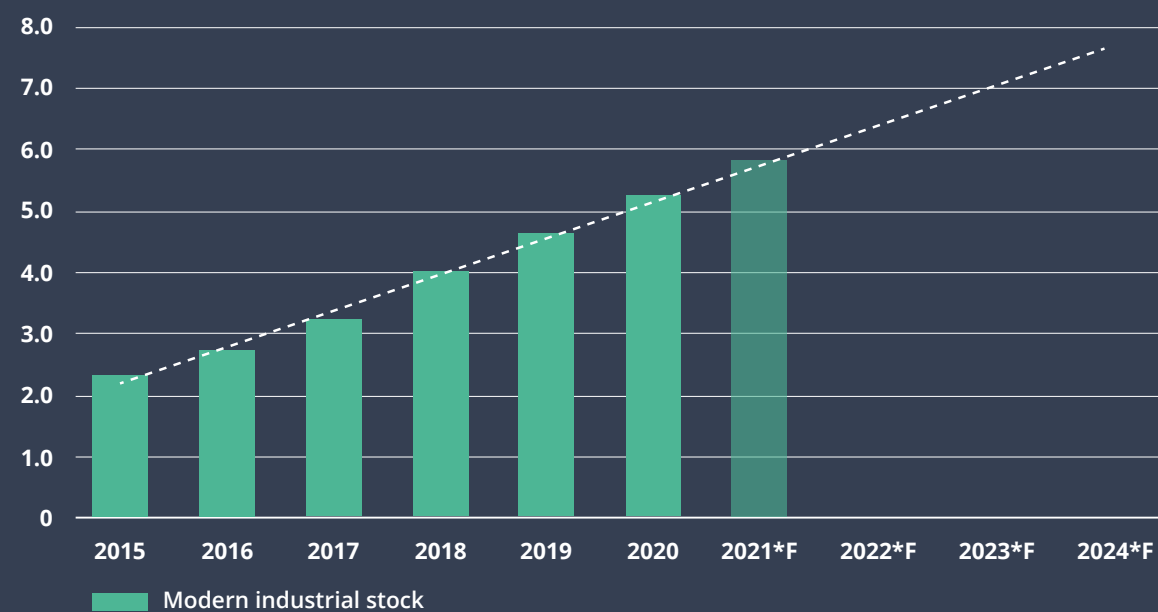


Romanian industrial market

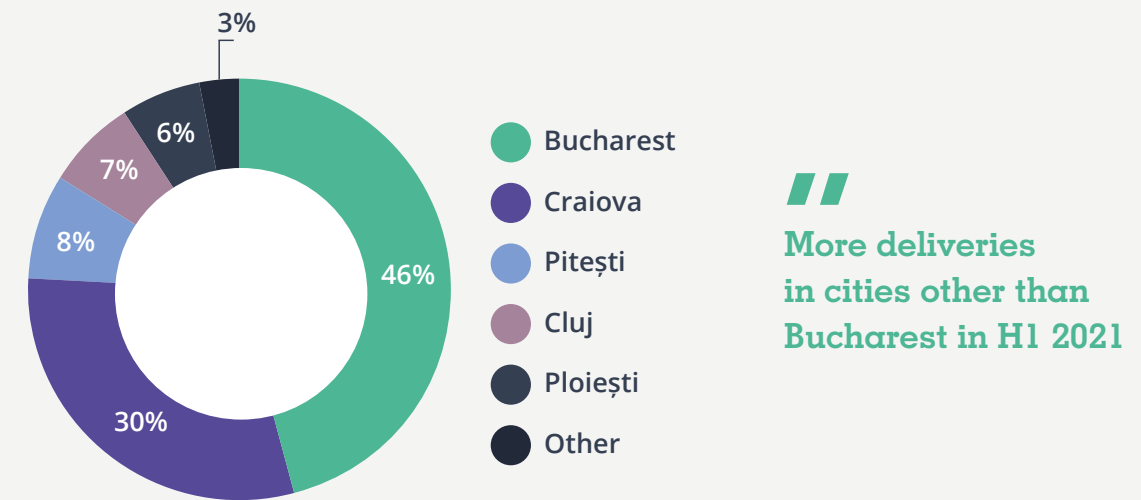
Stock exceeded 5.4 million sq. m

With close to 200,000 sq. m of class A industrial supply delivered in the first half of 2021, the modern industrial stock in Romania exceeded 5.4 million sq. m.

Romanian modern industrial stock evolution trend (million sq. m)



Deliveries of class A industrial units in H1 2021, by geography (%)



Bucharest attracted less than half of the deliveries, which is a trend we expect to see more of, due to the appetite of developers and tenant companies to expand their operations to secondary and tertiary cities, in order to cover more territory in terms of distribution.

Pipeline continued growth trend

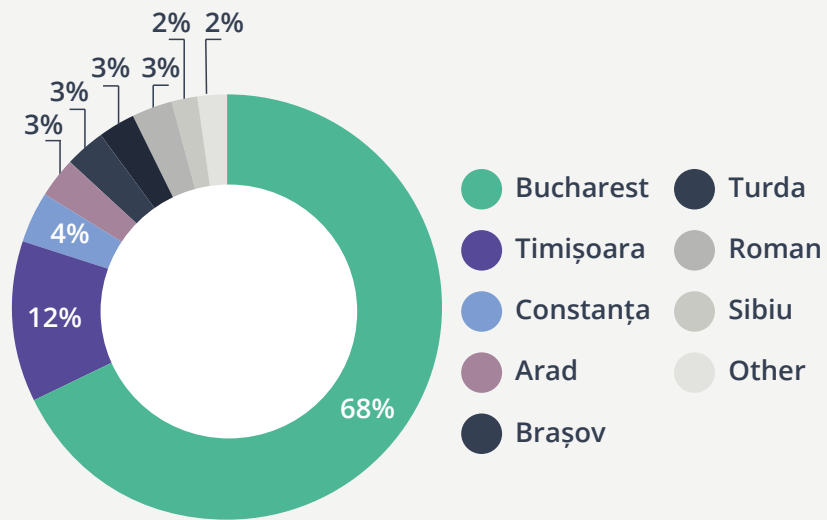
The developers have plans to deliver another ~450,000 sq. m of class A industrial/logistic space by the end of 2021 – which would mean for 2021 to be just as prolific as the previous 2 years, continuing the impressive growth trend. This evolution would be in line with the last years – for example in 2020, two thirds of the deliveries of new stock occurred in the second half of the year.

// Another ~450,000 sq. m of class A industrial/logistic space to be delivered by the end of 2021

The recent increase in construction materials cost will translate into less speculative deliveries – as developers do not wish to spend the extra cost without the certainty that it will be recouped via rent. This may push some of the delivery plans to 2022; however, the 2022 pipeline is already looking rather impressive.

// The developers continue to secure plots of land for development

Pipeline for H2 2021, by geography (%)



The pipeline for the rest of 2021 is still rather concentrated in the Bucharest area; Timisoara will also attract an important share and we also see growth in tertiary cities such as Turda and Roman.

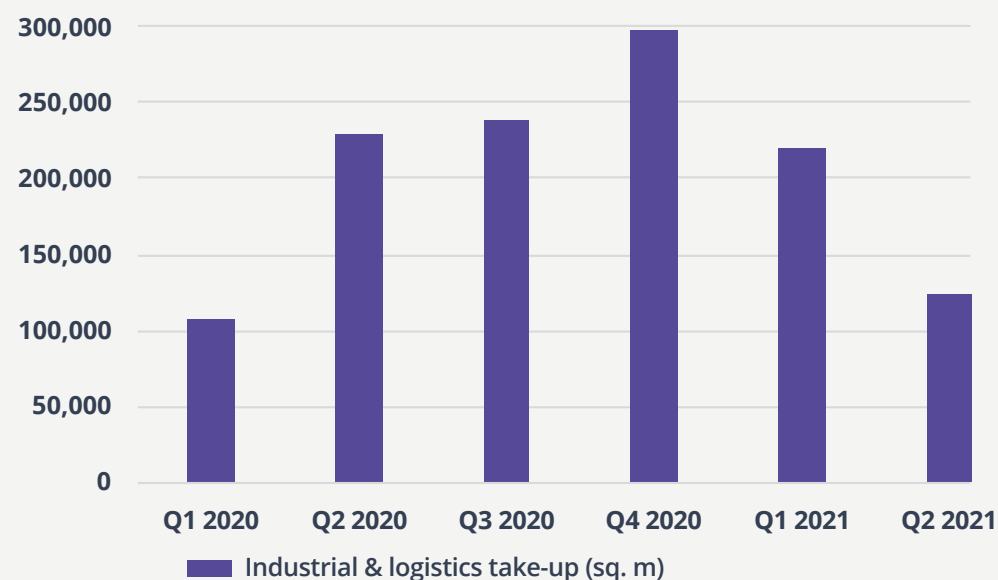
Demand

There were ~350,000 sq. m of modern industrial and logistic space leased during the first half of 2021, which equates to the first half of 2020 (a record year in terms of take-up), when ~340,000 sq. m were leased.

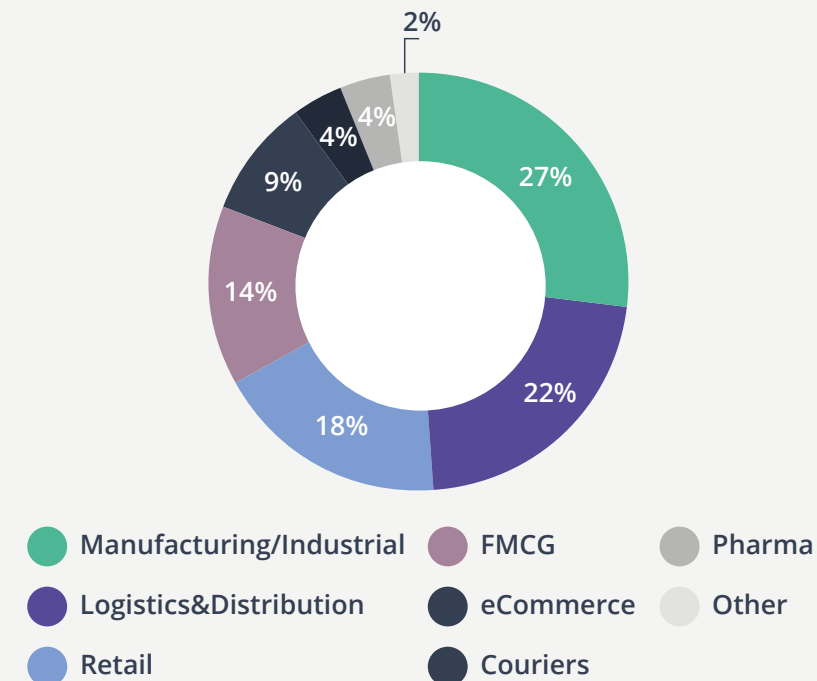


~350,000 sq. m
modern industrial & logistics
space leased in H1 2021

Take-up by quarter Q1 2020 – Q2 2021 (sq. m)



Distribution of demand by business sectors (%)

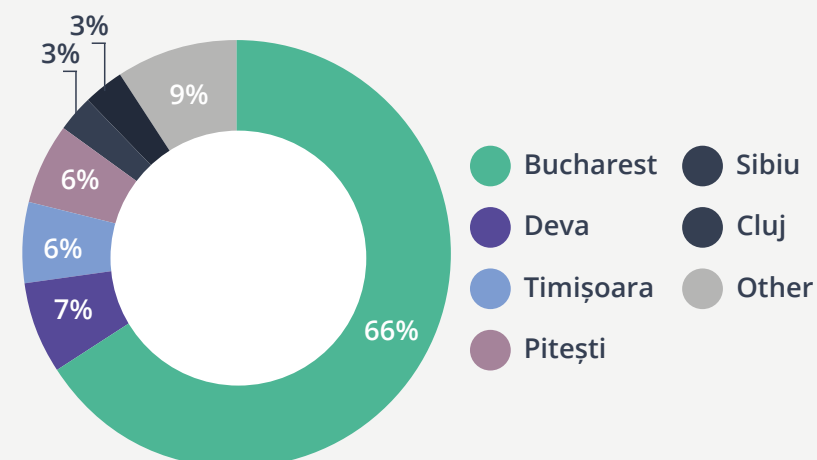


eCommerce
demand growing exponentially

The demand coming from manufacturing activities registered a surge in the first half of 2021, as well as from retail – from ~13% in 2020 to ~18% in the first half of 2021. As expected, the demand from eCommerce is increasing exponentially – from ~3% in 2020 to ~9% in H1 2021.

Generally, there is an appetite for expansion coming from existing tenant companies, as well as international companies (especially eCommerce) looking to enter the Romanian market and establish here regional distribution centres.

Demand in H1 2021, by geography (%)



Bucharest attracted ~66% of the demand in H1 2021, a decrease from the 72% in 2020. Deva, Timisoara and Pitești also attracted significant demand.

Vacancy descending trend

The decrease in speculative developments translates into tightening of the gap between supply and demand, which, together with the fact that developers are looking to fill up the existing buildings, result in a downward pressure on the vacancy rate, which is now on a descending trend.


Downward pressure
on the vacancy rate

6.0%
Vacancy Romania
7.1%
Vacancy Bucharest

Occupancy costs & market practice rents remain stable

As the construction costs rose, the developers need to recover them from rental income, hence there is no more downward pressure on rents, and they remain stable.

Headline rent

€3.85
Bucharest
Timisoara
Cluj

€3.5–3.8
Other
cities

—

Incentives (10–15%)

Rent free
months,
personalised
fit-out, early
access, etc.

+

Service charges

€0.7–1.0
Building
maintenance,
property tax,
building insurance

Lease length



Logistic activities
3–5 years

Manufacturing/BTS units
5–10 years

Forecast & trends



We expect the modern logistic stock to continue to expand, as there is plenty growth potential, and also to see new international developers on the Romanian industrial market in the next years.



Tenants' requirements for industrial and logistic space are becoming more specific, geared towards energy saving (isolation, lighting, charging stations for electric vehicles).



The occupancy costs should remain stable, as the context generated by the construction materials crisis counterbalances the downward pressure on rents.

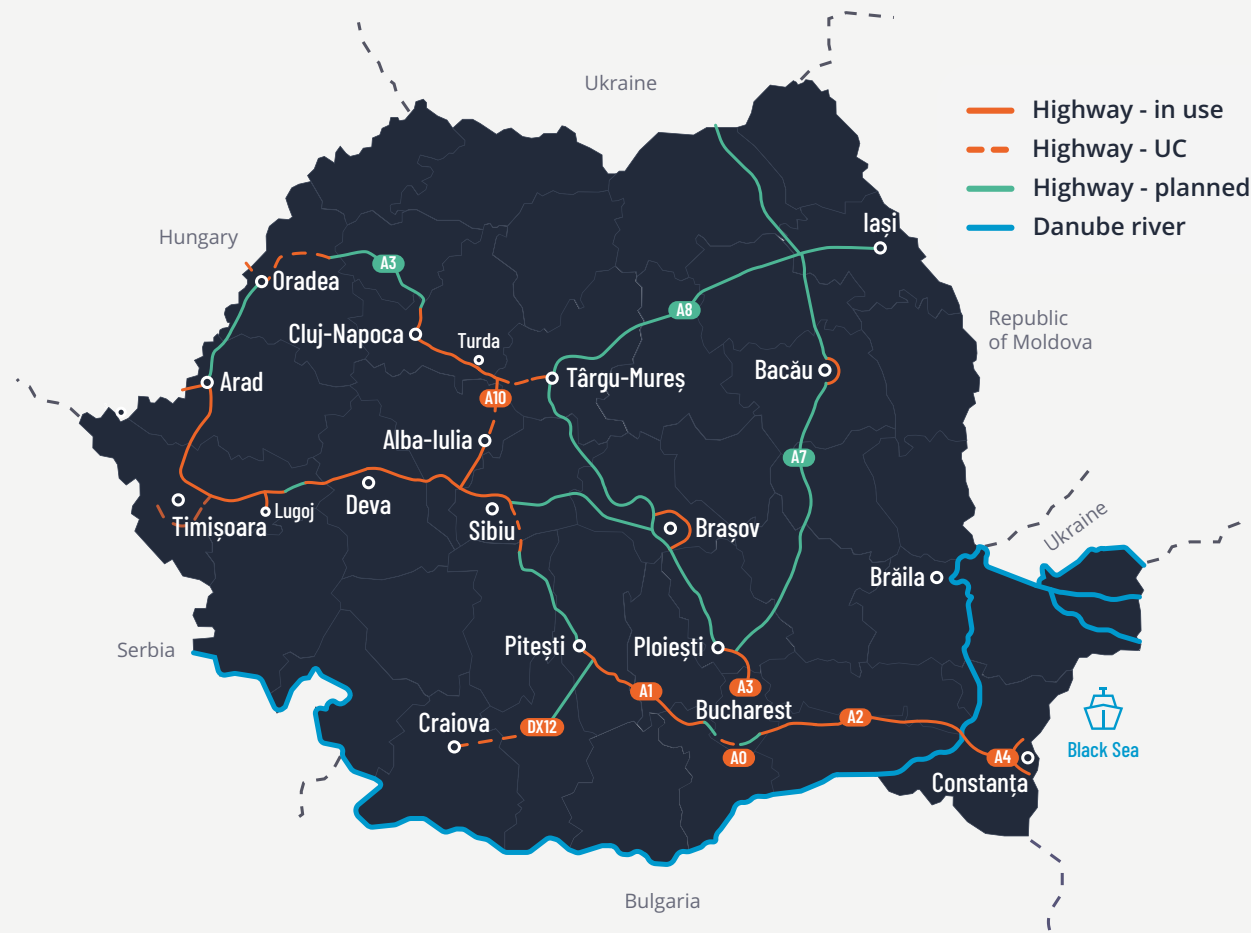


The pandemic changed the consumption habits of Romanians, triggering an increase of eCommerce/online retail. As the pandemic goes away, the habits will remain, as it only accelerated a natural change. We expect the surge we saw in logistic demand coming from this sector to increase.

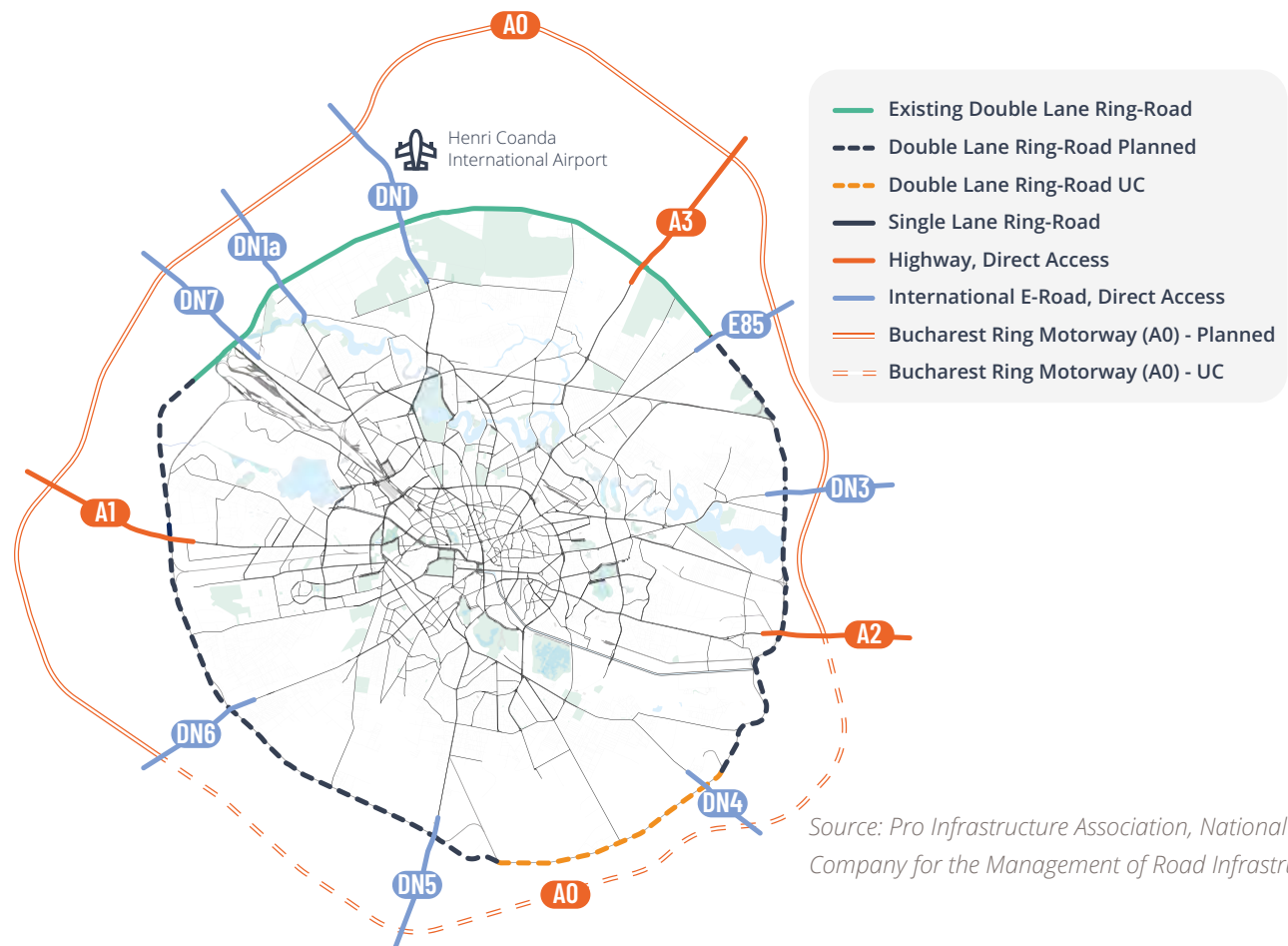


The high transport time and cost from China will make European, and especially East-European countries more attractive for manufacturing and industrial activities.

Highways and regional industrial & logistics hubs, Romania



Access to international e-roads & highways, Bucharest



Source: Pro Infrastructure Association, National Company for the Management of Road Infrastructure



**Putting
people
first.**

**AVISON
YOUNG**

David Canta

Managing Director & Principal, Romania
david.canta@avisonyoung.com
+40 727 737 894

Laurentiu Duica

Senior Vice President
laurentiu.duica@avisonyoung.com
+40 737 554 973

Alexandru Boff

Associate Director, Investment Sales
alexandru.boff@avisonyoung.com
+40 747 122 021

Iuliana Busca

Head of Industrial Agency
iuliana.busca@avisonyoung.com
+40 723 085 294

Otilia Bordei

Head of Office Agency
otilia.bordei@avisonyoung.com
+40 727 644 019

Mihaela Galatanu

Associate Director, Research
mihaela.galatanu@avisonyoung.com
+40 739 169 666

Andrei Kivu

Senior Data Analyst, Research
andrei.kivu@avisonyoung.com
+40 744 481 955



© 2021 Avison Young [Commercial Property Services SRL]. All rights reserved.

E&OE: The information contained herein was obtained from sources which we deem reliable and, while thought to be correct, is not guaranteed by Avison Young. All opinions expressed and data provided herein are subject to change without notice. This report cannot be reproduced, in part or in full, in any format, without the prior written consent of Avison Young Inc.